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PASS TREASURY FOR PARSKY & WIDMAN, EB/IFD/OMA FOR RYAN

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TAGS: EFIN, OECD, EINV

SUBJECT: REPORT TO IEA GOVERNING BOARD BY AD HOC
GROUP ON FINANCIAL AND INVESTMENT ISSUES

REFS: (A) OECD PARIS 7284

(B) OECD PARIS 7371

(C) STATE 061254

(D) IEA WP (75)1

(E) IEA/SPC(75)7

1. SUMMARY: AD HOC GROUP ON FINANCIAL AND INVESTMENT
ISSUES (FII) MET MARCH 19-20 AND COMPLETED CHAIRMAN'S
REPORT TO IEA GOVERNING BOARD (GB) ON ISSUES ASSIGNED TO
FII (REFERENCES A AND B). REPORT GIVES RECOMMENDATIONS
TO GB ON WHETHER INDIVIDUAL ISSUES SHOULD BE PLACED ON
AGENDA OF PRODUCER CONSUMER DIALOGUE AND SUGGESTS BRIEF
PRELIMINARY LINES-TO-TAKE. FII WORKED MAINLY ON BASIS
DRAFT REPORT TABLED BY U.S. DELEGATION (REF C). FINAL
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REPORT RESEMBLES CLOSELY U.S. DRAFT WITH PRINCIPAL

DIFFERENCE BEING THE SIMPLIFICATION OF LANGUAGE AND MODERATION OF SOME POSITIONS TO TAKE ACCOUNT OF VIEWS OF OTHER COUNTRIES. MEETING PROVIDED FIRST OPPORTUNITY FOR FII TO EXCHANGE PRELIMINARY OPINIONS ON POSITIONS. CONSIDERABLE COINCIDENCE OF VIEWS ON MOST ISSUES EVIDENT WITH EXCEPTIONS MAINLY IN AREAS OF DEGREE OF NEED FOR CONSUMER-PRODUCER COOPERATIVE ACTION IN RECYCLING AND OF EXTENT TO WHICH OECD COUNTRIES SHOULD SHARE RESPONSIBILITY WITH OIL PRODUCERS IN INCREASING AID TO LDC'S. END SUMMARY.

2. MEETING OF FII ON MARCH 19 BEGAN WITH WALLY HOPKINS OF IEA SECRETARIAT IN CHAIR, AS CHAIRMAN, ASSISTANT SECRETARY PARISKY DELAYED IN ARRIVAL.

3. PRIOR TO MEETING, IEA SECRETARIAT DISTRIBUTED DOCUMENT (REF D) WHICH CONTAINED RECAST OF PRELIMINARY POSITION PAPERS ON SUBJECTS IDENTIFIED IN REF E (AND CABLED TO WASHINGTON). U.S. DEL TABLED A DRAFT OF CHAIRMAN'S REPORT TO GOVERNING BOARD (REF C). U.S. DEL ARGUED THAT RATHER THAN HAVE A LENGTHY DRAFTING SESSION REVIEWING INDIVIDUAL PRELIMINARY POSITION PAPERS WHICH WOULD REQUIRE EXTENDED SUBSTANTIVE DISCUSSION OF MANY TOPICS, IT WOULD BE PREFERABLE TO CONCENTRATE ON PREPARATION OF CHAIRMAN'S REPORT WITH BRIEF RECOMMENDATIONS ON POINTS NEEDED BY GB FOR UPCOMING PRODUCER/CONSUMER PREPCON. THIS APPROACH WAS ACCEPTED BY FII AND U.S. DRAFT REPORT INCLUDED IN REF A SERVED AS BASIS FOR DISCUSSION, WITH PORTIONS OF PAPERS IN REF D ALSO USED.

4. DISCUSSION OF INDIVIDUAL TOPICS IN REPORT, PARTICULARLY OF LINE TO TAKE IN PREPCON, RESULTED IN USEFUL FIRST EXCHANGE OF VIEWS BY MEMBERS OF FII ON THESE SUBJECTS. THIS NECESSARILY INCLUDED SOME COMMENTS ON SUBSTANCE, BUT IT WAS RECOGNIZED THAT APPROPRIATE PLACE FOR BASIC ANALYTICAL WORK FOR MOST TOPICS IS IN RELEVANT OECD FORUMS (E.G., INVESTMENT COMMITTEE, THE NEW VAN YPERSELE AD HOC GROUP) AND THAT ROLE OF FII IS TO MAKE SURE THAT THESE ANALYSES ARE LIMITED OFFICIAL USE

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APPROPRIATELY PREPARED AND ADAPTED FOR PURPOSES OF IEA POSITIONS FOR PRODUCER/CONSUMER DIALOGUE.

5. CONSIDERABLE COINCIDENCE OF VIEWS REVEALED ON ISSUES, WITH MAIN EXCEPTIONS ARISING UNDER PRODUCER-CONSUMER COOPERATION ON RECYCLING AND ASSISTANCE TO LDC'S ISSUES. FOLLOWING ARE HIGHLIGHTS DISCUSSION ON INDIVIDUAL TOPICS. NUMERICAL REFERENCES ARE FROM TOPIC LIST IN

REF E.

6. WORLD ECONOMIC SITUATION (I): EC OBSERVER AND
SEVERAL EUROPEAN DELS STRESSED THAT OBJECTIVE SHOULD
BE TO OPEN CONSTRUCTIVE DIALOGUE WITH PRODUCER COUNTRIES
ON IMPACT OF OIL PRICE INCREASE ON WORLD ECONOMY, AVOID-
ING PUTTING MAJOR PART OF BLAME FOR PRESENT SITUATION
ON OIL PRODUCERS. THEY FELT U.S. DRAFT NOT ADEQUATELY

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"BALANCED" AND RAISED SUBSTANTIVE ISSUES NEEDING FURTHER
STUDY AND CONSENSUS WITHIN IEA AND THAT THESE SHOULD BE
STRESSED AS COMMON RESPONSIBILITY FOR IMPROVING
SITUATION.

7. RECYCLING AND BALANCE-OF-PAYMENTS ADJUSTMENTS (IIA):
SEVERAL DELEGATES FELT BROADER SECRETARIAT DRAFT
OFFERED BETTER BASIS FOR CONSENSUS THAN U.S. DRAFT,
PARTLY BECAUSE IT CONVEYED VIEW THAT IMPROVED RECYCLING
IS OF INTEREST TO PRODUCERS AS WELL AS CONSUMERS.

(SOME DELS WERE UNCLEAR ABOUT PRECISE MEANING OF U.S. DRAFT'S REFERENCE TO A MULTILATERAL AGREEMENT WITH PRODUCERS ON THE INVESTMENT OF FUNDS.)

8. PRODUCER CLAIMS ON REAL RESOURCES (IIB); THERE WAS STRONG FEELING IN GROUP THIS TOPIC BELONGED IN CONTEXT OF DISCUSSION OF WORLD ECONOMIC SITUATION. CHANGES IN U.S. DRAFT WERE MAINLY TO SIMPLIFY TEXT AND REDUCE APPEARANCE OF DISAGREEMENT ON THIS ISSUE.

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9. INWARD INVESTMENT (IIC); WHILE THERE WAS EXTENSIVE DISCUSSION OF THIS ISSUE, THERE WAS LITTLE SUBSTANTIVE DISAGREEMENT. SWISS NOT WILLING IN CONTEXT OF NEGOTIATING POSITION TO RULE OUT POSSIBILITY OF FUTURE DISCRIMINATORY POLICIES, AND THUS NONDISCRIMINATION LINE IN FINAL TEXT REFERS TO EXISTING POLICIES. EMPHASIS IN U.S. DRAFT ON BILATERAL DISCUSSIONS OF INVESTMENT POLICIES WITH PRODUCERS WAS SOFTENED SINCE THIS SEEMED TO DETRACT FROM CONSUMER CONSOLIDATION OBJECTIVES OF IEA. HOWEVER, IT WAS AGREED THAT HARMONIZATION OF CONSUMER COUNTRY POLICIES NOT A REALISTIC OR DESIRABLE GOAL. GERMAN DEL AGREED THAT ISSUE OF MULTILATERAL INVESTMENT FUNDS WHICH THEY SUPPORT SHOULD NOT AT THIS TIME BE PUT FORWARD AS AGENDA ITEM, AND REFERENCE TO SUCH PROPOSAL IN CHAIRMAN'S REPORT WAS ELIMINATED. GROUP AGREED THAT WOULD BE USEFUL FOR VAN YPERSELE GROUP TO STUDY THIS TOPIC.

10. OIL PRODUCERS CLAIM TO GREATER VOICE IN INTERNATIONAL MONETARY SYSTEM (IID); GROUP AGREED TO SIMPLIFY TEXT OF U. S. DRAFT SOMEWHAT, BUT AT SUGGESTION OF GERMANS AND ITALIANS DECIDED TO STRENGTHEN LINE THAT WE DO NOT WISH TO DISCUSS THIS TOPIC IN PRODUCER/CONSUMER DIALOGUE OTHER THAN SIMPLY REFER TO PROPER FORA FOR SUCH DISCUSSIONS WHEN ISSUE RAISED BY PRODUCERS.

11. PRODUCERS CLAIM FOR SAFE INVESTMENT OF THEIR FUNDS (IIE); LIVELY DISCUSSION THIS TOPIC BEGAN BY SWISS ARGUING THAT U.S. DRAFT SEEMED TOO STRONG AN ABSOLUTE REFUSAL TO CONSIDER INDEXATION OF ASSETS PRIOR TO SUBSTANTIVE ANALYSIS OF ISSUE. U.K. ARGUED NEED TO SHOW SLIGHT FLEXIBILITY ON ISSUE. HOWEVER, GERMANY COUNTERED THAT U.S. DRAFT NOT STRONG ENOUGH. JAPAN MADE SIMILAR STRONG STATEMENT AGAINST INDEXATION AND MOST OTHER DELEGATIONS FOLLOWED WITH STATEMENTS THAT FOR THEM INDEXING OF FINANCIAL ASSETS OF PRODUCERS OR OF ALL FOREIGN INVESTMENTS PRESENTS VERY DIFFICULT AND IN SOME CASES INSURMOUNTABLE POLITICAL

AND ECONOMIC PROBLEMS. GROUP AGREED IT WOULD BE BAD
NEGOTIATING TACTICS TO INDICATE TO PRODUCERS WE ARE
STUDYING ISSUE. INSTEAD PROPOSED LINE IS THAT CONSUMERS
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SHOULD ONLY ADDRESS SUBJECT OF INDEXING ASSETS IN
RESPONSE TO SPECIFIC PROPOSALS FROM PRODUCERS. ON
RELATED SUBJECT OF RISK THAT GOVERNMENTS OF CONSUMING
COUNTRIES MIGHT NATIONALIZE OR IMPOSE OTHER RESTRAINTS
ON PRODUCER INVESTMENTS, GERMANS ARGUED STRONGLY THAT
IT UP TO INVESTOR COUNTRIES TO INSURE SUCH INVESTMENTS.
SWISS STATED CONSUMERS SHOULD NOT COMPLETELY RULE OUT
POSSIBLE ACTION IN THIS FIELD. FINAL DRAFT SIMPLY PUTS
ONUS ON PRODUCERS TO MAKE SPECIFIC PROPOSALS.

12. RESPONSIBILITY FOR INFLATION (IIF): DISCUSSION OF
TOPIC VERY BRIEF, AS ALL AGREED THIS NOT A CONSTRUCTIVE
SUBJECT FOR DIALOGUE. U.S. DRAFT LANGUAGE WAS
DROPPED FOR SIMPLER TEXT, NOTING ANY DISCUSSION THIS
ISSUE SHOULD BE AS PART OF WORLD ECONOMIC SURVEY.

13. DEVELOPMENT COOPERATION BETWEEN INDUSTRIALIZED
COUNTRIES AND PRODUCERS (IIIA): THE DISCUSSION SHOWED
THAT OECD COUNTRIES WERE BASICALLY TAKING A SIMILAR
APPROACH (ON RELATED TRADE PREFERENCE ISSUE, SEE
PARA 15 BELOW).

14. TRIANGULAR COOPERATIVE DEVELOPMENT PROGRAMS (IIIB):
LENGTHY DISCUSSION THIS TOPIC REVOLVED AROUND, FIRST,

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PERSISTENT YET GENERALLY UNSUCCESSFUL ATTEMPTS BY TURKEY TO REJECT U.S. DRAFT FOR MORE FORTHCOMING SECRETARIAT/TURKEY PAPER IN REF B AND IN PARTICULAR TO INCLUDE REFERENCE TO TURKISH PROPOSAL FOR NEW DEVELOPMENT ASSISTANCE MECHANISM. THEN SWEDES LAUNCHED INTO EXTENDED OPPOSITION TO U.S. LANGUAGE THAT EMPHASIZED RESPONSIBILITY OF PRODUCERS TO COME FORTH WITH GREATER CONCESSIONAL DEVELOPMENT ASSISTANCE, ARGUING INDUSTRIALIZED COUNTRIES SHARED SUCH RESPONSIBILITIES. RESULTING FINAL DRAFT IS STREAMLINED AND SOFTER VERSION OF U.S. DRAFT.

15. TRADE ISSUES (IV): THERE WAS STRONG AGREEMENT THAT TRADE ISSUES SHOULD NOT BE AN AGENDA ITEM BUT RATHER SHOULD BE DISCUSSED ELSEWHERE, PARTICULARLY IN GATT. SWISS NOTED THAT SPECIAL QUESTION OF PREFERENTIAL TREATMENT FOR PETROLEUM PRODUCTS MAY BE PUSHED AS AGENDA ITEM BY PRODUCERS. IT WAS AGREED IEA SHOULD PREPARE DEFENSIVE PAPER ON THIS LIMITED OFFICIAL USE

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ISSUE, PARTICULARLY AS IT RELATES TO OIL PRICE AND SECURITY OF SUPPLY ISSUES. EC REP NOTED THAT THE NINE COULD NOT AGREE WITH PARAGRAPHS 1 AND 2 OF U.S. DRAFT OF LINE TO TAKE ON THIS ISSUE, NAMELY, LINES AGAINST PREFERENTIAL ARRANGEMENTS AND GENERAL ASSOCIATION AGREEMENTS, SINCE THEY CONFLICT WITH EC POLICY. HE SUGGESTED US DRAFT'S REFERENCE TO AGREEMENT IN TOKYO DECLARATION RE GRANTING SPECIAL ATTENTION TO PROBLEMS OF LDC'S IN CONTEXT OF MTN, AND GROUP AGREED.

16. OIL PRICES: INDEXATION (V)(C)(IV): FII REVIEWED SPC PAPER ON OIL PRICES (IEA/SPC(75)7) WITH SPECIAL REFERENCE TO INDEXING, AND NOTED THAT PAPER SHOULD

INCLUDE STRONGER INDICATION OF SERIOUS PROBLEMS POSED
BY INDEXATION, ESPECIALLY IN THE "LINES TO TAKE"
SECTION, WHICH FOLLOWS:

BEGIN TEXT

LINES TO TAKE

1. PRICE WILL BE ON THE AGENDA, WHETHER EXPLICITLY
AS A SEPARATE ITEM OR IMPLICITLY IN EVERY OTHER AGENDA
ITEM.
 2. THE DESIRABILITY OF DEVELOPING AND MOVING
TOWARDS A NEW EQUILIBRIUM PRICE SHOULD BE INTRODUCED,
IN THE CONTEXT OF A GENERAL REVIEW OF THE OIL MARKET
AND PRICE.
 3. INDEXATION WILL NO DOUBT BE RAISED BY
PRODUCERS. THE CONSUMERS' POSITION SHOULD BE ONE OF
CAUTIOUS INTEREST, IMMEDIATELY ESTABLISHING THE LINK
TO AN EARLY SIGNIFICANT PRICE REDUCTION, BUT IN THE
SPIRIT OF COOPERATION, WILLING TO LISTEN TO THE
PRODUCERS' PROPOSALS AND EVALUATE THEM OBJECTIVELY.
- END TEXT
- FII ALSO NOTED NEED FOR STUDY OF QUESTION OF CURRENCY
DENOMINATION OF OIL PRICES.

17. PRODUCER PARTICIPATION IN DOWNSTREAM INVESTMENTS
(V)(F): FII REVIEWED SOM PAPER WITH REGARD TO
INVESTMENT ASPECTS OF THIS ISSUE AND EXPRESSED GENERAL
UNEASINESS UNEASINESS WITH UNQUALIFIED
SUPPORT TO SUCH INVESTMENTS EXPRESSED IN PAPER. TEXT
OF "LINES TO TAKE" SECTION OF THIS PAPER FOLLOWS.
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BEGIN TEXT

1. WE SHOULD NOT SEEK TO INCLUDE THE SUBJECT IN
THE AGENDA, BECAUSE IT IS NOT CENTRAL TO OUR BASIC
OBJECTIVES. HOWEVER, IF IT IS RAISED WE SHOULD BE
PREPARED TO ADDRESS IT.
2. (I) WE ARE READY TO HELP PRODUCING COUNTRIES
MOVE INTO DOWNSTREAM ACTIVITIES BY
PROVIDING EXPERTISE AND CAPITAL EQUIPMENT;
(II) THOSE PLANNING DOWNSTREAM ACTIVITIES
SHOULD TAKE ACCOUNT OF EXISTING
RESOURCES AND OF LEGITIMATE FUTURE
TRENDS IN DEMAND IN ORDER TO AVOID
WASTE OF SCARCE HUMAN SKILLS AND LARGE
CAPITAL INVESTMENTS.

END TEXT

THE JAPANESE DELEGATION IN PARTICULAR WAS INSTRUCTED
TO ENTER STRONG RESERVATIONS ON THIS PAPER AND THIS
WAS NOTED IN THE CHAIRMAN'S REPORT TO THE GB.

18. PARSKY SAID NEXT FII MEETING WOULD BE DECIDED IN

RELATION TO TIMING OF STEPS TOWARD PRODUCER/CONSUMER
DIALOGUE AND THE NEED TO PREPARE SUBSTANTIVE POSITIONS
FOR THIS DIALOGUE AS DETERMINED BY IEA GOVERNING BOARD.
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